E

Distr.
RESTRICTED

ST/ECA/CTNC/2
15 June 1981

Original: ENGLISH

UNITED NATIONS

ECONOMIC AND SOCIAL COUNCIL

ECONOMIC COMMISSION FOR AFRICA

Joint ECA/CTNC Unit on Transnational Corporations

THE IMPACT OF TRANSNATIONAL BANKS ON THE BALANCE OF PAYMENTS OF THE SUDAN*

A TECHNICAL PAPER

by

EL RASHIED ABDEL WAHAB EL BASHIER*

* ECA Consultant. The views expressed herein are those of the author and do not necessary represent the views of this organization.

CONTENTS

		Page
1.	COUNTRY VARIABLES	1 - 2
2.	PRODUCTION	2 - 4
3.	PUBLIC FINANCE	3 - 6
4.	MONEY AND CREDIT	6 - 9
5.	BALANCE OF PAYMENTS	9 - 13
6.	TRANSNATIONAL BANKS IN THE SUDAN	13 - 18
7.	IMPACT OF TRANSNATIONAL BANKS ON THE BALANCE OF PAYMENTS	18 - 22
8.	CONCLUSIONS	22 - 23

ANNEX Development of banking over the period 1959 - 1978

BIBLIOGRAPHY

Acknowledgements

This study would not have been possible without the sincere co-operation and able assistance of many colleagues and institutions. The co-operation of the banks concerned in providing the required information is deeply appreciated. The author is also indebted to those colleagues who assisted substantially by giving him the benefit of their views and ideas and by providing material which would not have otherwise been available. Heartfelt gratitude is due to the colleague who ungrudgingly read through and corrected the various drafts. The patience and professional ability of the colleague who types this study deserves special mention. However, it goes without saying that the responsibility for the ideas and views expressed in this study and for any errors and misjudgements is solely that of the author.

1. COUNTRY VARIABLES

(a) Area

The Sudan, with an area of 967,500 sqaure miles - approximately 2.56 million square kilometers - is the largest country in the African continent, comprising varying climatic and vegetation zones ranging from barren desert to dense equatorial forests.

(b) Population

The population of the Sudan is small relative to the considerable size of the country. It is estimated to be 18 million and is increasing at the rate of 2.5 percent per annum. However, this is not to say that the Sudan is without population problems. Rather, this situation presents a different range of problems in relation to population distribution, housing and the provision of other services, taking into account the constraints imposed by transport bottlenecks.

(c) Gross domestic product and per capita income

Table 1 gives figures for the GDP at market prices by type of economic activity. Actual GDP data are available up to fiscal year 1974/75. Figures for the years 1975/76, 1976/77 and 1977/78 are estimates based on the compound rate of growth for each sector.1/

Table 1. GDP at market price by economic activity for the period 1973/74-1977/78
(in LSd millions)

Economic Activity	1973/74	1974/75	1975/76	1976/77	1977/78
Agriculture	516.4	585.3	688.4	763.3	871.7
Commerce, finance and services	411.5	518.5	591.1	673.9	768.2
Manufacturing and mining	111.3	142.9	152.3	184.1	209.0
Transport and communications	74.8	89.4	98.1	107.5	118.0
Construction and public works	51.9	55.0	75.6	90.3	106.5
Electricity and water	18.6	20.9	21.7	22.5	23.5
Total all sectors	1,183.6	1.422.0	1,630.1	1,841.8	2,096.9
Customs	52.6	88.0	100.2	113.0	127.5
GDP at market price	1,246.2	1n510.0	1,738.3	1,954.8	2,224.4

Source:- Bank of Sudan, Annual Report 1978.

1/ Bank of Sudan, Annual Report 1978.

The percentage contributions of the various sectors to GDP were as follows (for 1977/78):

Agriculture	39.2
Commerce, finance and services	34.5
Manufacturing and mining	9.4
Transport and communications	5.3
Construction and public works	4.8
Electricity and water	1.0
Customs	5.7

The rate of increase of GDP for the period under consideration, i.e., 1974/75 - 1977/78, averaged 15.6 per cent.

Per capita income in real terms has at best risen slightly, taking into consideration the continued pressure on prices together with the high rate of population growth of 2.5 per cent.

2. PRODUCTION

(a) Agriculture

The Sudan has a large agricultural potential. Most areas enjoy easy access to plentiful water supplies from both rivers and rainfall. Arable land is estimated to be 200 million acres, only 10 per cent of which is currently utilized. The country also has 60 million acres of pasture land sparsely utilized by traditional herdsmen. Agriculture is the source of virtually all exports, provides the bulk of inputs to the industrial sector, and employs two-thirds of the labour force.

Historically, the Government has taken - and still takes - the major share in development projects. The most important of these projects in agriculture is the Gezira scheme, which alone comprises two million acres. Mention should also be made in this respect of the Rahad scheme with an area of 150,000 acres. In the rain-irrigated areas, cultivation is carried on mainly by traditional methods, although substantial mechanization and modernization has taken place.

The main agricultural crop is cotton, which is also the country's main cash crop and foreign exchange earner.

Also important as foreign exchange earners are oil seeds, i.e., groundnuts and sesame. The Sudan is also a major world producer of gum arabic and the volume of Sudanese exports affects world market prices.2/

Livestock breeding is an important activity in the Sudan, mostly carried on by traditional herdsmen.

2/ The Sudan Oil Seeds Corporation, in which the Government of the Sudan holds a major share, has a monopoly of the export of oilseeds. Similarly, the Gum Arabic Corporation has a monopoly of the export of that commodity, and the Cotton Public Corporation is the sole marketing agent for cotton.

Table 2 gives the area and output for the five years ending 1978/79.

Table 2. Area and output of main crops for the period 1974/75-1978/79[a/]

Crop	1974/75		1975/76		1976/77		1977/78		1978/79	
	area	output	area	output	area	output	area	output	area	output
Cotton[b/]	1,228	4,534	988	2,276	1,030	3,268	139	3,901	NA	NA
Gum Arabic	-	52,500	-	43,300	-	26,185	-	39,345	NA	NA
Groundnuts	1,717	875	2,066	931	1,894	740	2,629	1,021	2,300	811
Sesame	2,199	282	2,291	238	2,288	253	2,349	245	2,057	220
Wheat	598	245	714	264	639	294	592	317	317	266
Dura	5,864	1,744	6,179	2,026	6,287	1,800	5,662	2,017	7,202	2,408
Dukhn	2,646	444	2,512	403	2,773	473	2,948	488	3,158	557

Notwithstanding the serious efforts that have been made to develop and modernize agriculture in the Sudan, certain handicaps and difficulties are still encountered, namely:

(i) Social and technical difficulties,
(ii) The existing irrigation system will require considerable expenditure and there are bound to be technical problems in increasing its capacity (irrigation, canals, dams and other facilities),
(iii) The severe limitation of the carrying capacity of the transport system still remains the most formidable single bottleneck, in spite of obvious improvements.

(b) Industry production

The industrial sector in the Sudan is relatively small and is concerned mainly with processing primary products. Import substitution industries are also significant, notably sugar and textiles. Thus industrialization is limited in scope and confined to agro-industries. The Government also holds the largest stake in this sector (sugar,

a/ Areas are given in thousands of feddans for all crops.
b/ Cotton output is givenfor both long staple and American type in thousands of kentars.

Source: Bank of Sudan, Annual Reports.

textiles, etc.). The Government, moreover, provides virtually all the infrastructure available in the field of transport and communications, irrigation facilities and ports, all of which are run by the respective Government departments.

Table 3 shows industrial production for the years 1974/75-1977/78.

Table 3. Industrial production for the period 1973/75-1977/78

Commodity	Unit	1973/74	1974/75	1975/76	1976/77	1977/78
Cement	Thousand tons	209.1	217.7	157.7	178.3	132.1
Flour	Thousand tons	190.1	220.9	237.3	266.8	275.0
Sugar	Thousand tons	120.6	128.7	113.9	138.7	138.2
Soap, toilet	Thousand tons	2.9	2.6	3.0	2.6	2.6
Soap, normal	Thousand tons	29.7	34.6	40.1	48.1	46.1
Wine	Thousand litres	4 307.7	4 592.9	4 607.1	4 078.3	3 858.4
Beer	Thousand litres	8 579.4	9 634.3	9 579.1	8 788.4	8 223.7
Cigarettes	Thousand kilograms	567.9	514.3	894.9	728.1	819.5
Matches	Billion units	6.5	5.3	6.2	7.4	6.5
Shoes	Million pairs	12.1	13.3	14.4	12.4	13.6

Source: Bank of Sudan, Annual Report 1978.

3. PUBLIC FINANCE

As mentioned above, the Government takes the major share in development as well as providing virtually all infrastructure and services. It is therefore also the biggest single spender. Figures for Government revenues and expenditures for the fiscal years 1973/74 to 1977/78, as well as the overall position of the public sector for those years, are given in table 4.

Table 4. Government revenues and expenditures for fiscal years 1973/74-1977/78[a/]
(LSd millions)

	Item	1973/74	1974/75	1975/76	1976/77	1977/78
A.	Central Government revenue	209.5	287.0	322.0	388.4	451.6
	Direct taxation	23.6	33.0	34.4	41.0	47.7
	Indirect taxation	119.2	183.5	211.2	237.8	260.0
	Other	66.7	71.3	86.4	108.4	143.9
B.	Central Government expenditure	-189.6	-264.0	-303.2	-351.2	-409.8
	Economic services	23.4	28.4	34.9	40.3	30.2
	Social services	15.8	18.7	23.9	26.5	64.6
	Loan repayments	19.0	27.6	37.5	56.7	30.4
	Defence and security	41.2	41.9	45.5	63.1	75.5
	Local government	37.9	48.1	59.8	75.5	85.4
	Other	51.3	99.3	101.6	89.2	123.7
	Current deficit or surplus	+19.9	+23.8	+28.8	+37.2	+41.8
C.	Development expenditure	-41.8	-102.4	-113.1	-216.4	-186.8
	Agriculture sector	13.0	21.4	31.5	63.1	43.2
	Industrial sector	12.7	36.0	35.7	58.1	39.0
	Transport and communications	7.2	23.2	27.9	48.1	55.0
	Services sector	7.9	19.3	9.7	21.9	15.1
	Other	1.0	2.5	8.5	25.2	32.3
D.	Public sector position with the banking system	-19.2	-43.9	-12.3	- 3.0	- 4.0
E.	Other public sector operations surplus (+) or (deficit) (-)	-31.1	-40.1	-33.7	12.7	26.9
	Public sector overall position	-72.2	-162.6	-130.3	-159.5	-129.9
F.	Financing of deficits	72.2	162.6	130.3	159.5	120.9
	External loans	24.4	103.6	22.5	9.9	4.4
	Bank financing (net)	41.9	59.0	107.8	159.6	116.5
	Sales of Government securities to private sector	5.9	-	-	-	-

a/ The fiscal year in the Sudan runs from 1 July to 30 June.

Central Government revenue increased at an average rate of 21.5 per cent over the period under consideration, while central Government and development expenditure increased at an average rate of 28.3 per cent. The percentage increase in Government

expenditure on development by sectors was as follows:[3]

Agricultural sector	45.1
Industrial sector	53
Transport and communications sector	-
Services sector	47.3
Others	153.6

The fiscal performance of the central Government since 1974/75 has been characterized by large deficits. Moreover, while the deficit has widened, foreign financing has declined sharply from over 63.7 per cent of the total deficit for the whole public sector in 1974/75 to less than 4 per cent in 1977/78. Dependence on bank financing has thus increased.

The revenue structure has not changed much in recent years.[4] Taxes on imports are by far the main source of revenue and amount to almost 50 per cent of the total tax revenue. Other important domestic taxes are excise duties (14 per cent) and a tax on sugar monopoly profits (7 per cent). Taxes on income and profits account for less than 15 per cent of tax revenue.

MONEY AND CREDIT

The banking system in the Sudan comprises the central bank (Bank of Sudan), ten Commercial Banks, four specialized banks, two savings institutions and two representative offices. Five of the commercial banks are state-owned; they were formerly privately owned but were nationalized in 1970 (El Nilein Bank, Sudan Commercial Bank, Unity Bank, Khartoum Bank and People's Cooperative Bank). Two banks are privately owned and are incorporated in the Sudan with some foreign participation (Faisal's Islamic Bank (Sudan) and Sudanese Development Bank). There are three branches of transnational banks, namely Abu Dhabi National Bank, Citibank and Bank for Credit and Commerce. In addition, there are the two savings institutions (Sudanese Savings Bank and the Post office Savings Bank), and the two representative offices (Chase Manhattan Bank and Arab African Bank). The four specialized banks are Agricultural Bank, Industrial Bank, Estate Bank and the newly established Cooperative Bank.

3/ It should, however, be noted that the reference here is to the average increase over the 5-year period. If figures for individual years are considered, however, agricultural development expenditure for 1977/78 shows a sharp decline (31 per cent) from that of the previous year.

For industrial development expenditure the rate of increase given is also an average rate; it should be noted that, following a very large increase of 183 per cent in 1974/75, there was a sharp drop of 32.9 per cent in 1977/78 from the level of 1976/77.

Transport and communications development expenditure showed a steady rise throughout the period and the rate given is again an average increase over the five years.

4/ Some modifications were made to the tax system during 1979. A 5 per cent ad valorem tax, called the defence tax, was imposed on most imports in May 1979. Revenue from this tax is estimated at LSd 20 million. In September 1979 both the 5 per cent surcharge and the 5 per cent development tax on imports was abolished. Also abolished were the 25 per cent exchange tax on payments and 25 per cent subsidy on receipts.

(a) Deposits

Table 5 gives figures for deposits held by the main depositors by type of account.

Total holdings of the main depositors, as shown in Table 5, increased on average by 32.5 per cent over the years under consideration. Private sector current accounts increased by an average of 31.7 per cent and deposit and saving accounts by an average of 31.6 per cent. In spite of this and because of the deficits in Government budgets and reliance on the banking system, it can be stated that the savings performance of the whole economy was weak.

The increase in private sector deposit accounts may be attributable mainly to the expansion of banking services and consequent development of banking habits (see Annex I). On the other hand, the increae in private sector demand deposits was the result of two main factors: (1) the sharp rise in commercial bank short-term credits to the private sector, and (2) the increase in deposits by SNWA. 4/

(b) Advances

The Government borrows mainly from the Bank of Sudan under Section 57 of the Bank of Sudan Act 1959. This provides that the bank of Sudan may give temporary advances to the Government at such rate or rates of interest as the Bank may determine, provided that the total outstanding at any time shall not exceed 10 per cent of the estimated current budget of the Government for the fiscal year in which such advances are granted. Provided further that all such advances shall be repaid at the latest within six months following the end of the fiscal year in which such advances were granted. 5/

In addition, the Government may borrow from the Bank of Sudan on a long-term basis to finance production schemes or schemes that have a direct bearing on production. 7/

Borrowing by the Government from the banking system has been substantial and has been used to finance the budgetary deficits mentioned above. However, during the fiscal year 1977/78 the Government adopted policies of fiscal restraint in an attempt to reduce the size of the deficit financed by the banking system. These policies resulted in some improvement in the performance of the public sector.

Public sector entities and corporations borrow from the Bank of Sudan under Section 57(A) of the Bank of Sudan Act 1959. The entities and corporations

4/ Sudanese Nationals Working Abroad.
5/ Bank of Sudan Act 1959, Section 57.1(a).
7/ Bank of Sudan Act 1959, Section 57.1(b).

borrowing under section 57(A) include PCPC, Sudan Railways, Sugar and Distilling Corporation, Sudan Airways, ARC, Mechanized Farming Corporation, Sudan Gezira Board, Food Industries Corporation, etc.

Movements of advances by commercial banks to the private sector are shown in Table 6.

Table 6. Advances by commercial banks to private borrowers for the period 31 December 1974-31 December 1978. (LSd '000)

	Exports		Imports and retail trade	Industrial enterprises	Other Business enterprises	Others	Medium and Long-term Loans	Total Advances
	Cotton	Others						
31.12.1974	3 668	57 307	10 691	39 992	15 555	6 530	11 372	123 215
31.12.1975	4 375	63 333	14 503	59 456	21 063	12 029	11 212	185 071
31.12.1976	4 844	77 071	15 849	74 028	24 259	13 978	18 365	228 394
31.12.1977	8 850	76 013	22 976	75 136	27 408	12 783	41 421	264 587
31.12.1978	7 891	85 189	39 193	106 979	28 513	23 246	52 117	343 228

Source: Bank of Sudan, Annual Reports.

The average increase in the advances by commercial banks to the private sector for the period under consideration was 29.8 per cent. Lending by commercial banks is regulated by the Bank of Sudan and a ceiling is set for each bank as well as an overall ceiling for the whole economy. The Bank of Sudan can influence not only the total volume of credit but also the direction of credit.

(c) Money supply and price indices

Credit to public enterprises and to a lesser extent credit to the private sector are the main determinants of the money supply.

Currency in circulation has increased progressively over the last five years. Demand deposits have also increased substantially due to the increase in bank advances, as mentioned above. The third component of the money supply, i.e., quasi-money, has also shown a continued increase. A summary of the movements in the money supply is given in Table 7.

Table 7. Money supply for the period 31.12.1974-31.12.1978
(in LSd million)

Money supply	31.12.1974	31.12.1975	31.12.1976	31.12.1977	31.12.1978
Currency	118.75	128.52	152.81	199.03	279.06
Private demand deposits	100.98	123.06	153.85	224.74	291.54
Quasi-money	46.85	57.94	73.85	108.09	135.34
	266.58	309.52	380.51	531.86	705.94

Source: Bank of Sudan.

5. BALANCE OF PAYMENTS

A summary of the balance of payments of the Sudan for the period 1974-1978 is given in Table 8.

The balance of payments of the Sudan, as presented in Table 8, shows an average annual deficit of LSd 82.6 million, Imports increased by an average rate of 9.5 8/per cent while exports averaged an 13 per cent rate of increase. However, the increase in exports reflects a general increase in the price level and not in production; production of some crops actually declined, as shown in table 8 and export proceeds for 1978 decreased by 6.2 per cent as compared with 1977.

(a) Exports

If interest is the relative share of cotton - which is the main foreign exchange earner - compared to other exports traditionally grouped under "others", It is clear from Table 8 that the relative share of "others" has been increasing continuously over the years and that for 1978 export proceeds from "others" were greater than those from cotton. This trend towards an increasing relative share of non-cotton exports is important as showing the effect of the diversification policy adopted because the risks involved in depending mainly on a single crop are enormous. The market for long-staple cotton is limited and highly specialized, with a small number of suppliers. This renders the supply side highly vulnerable to

8/ This is the average rate of increase; imports, after rising sharply in 1975, dropped by some 15.8 per cent and then picked up continuously thereafter.

Table 8. Summary of balance of payments of the Sudan for the period 1974-1978
(LSd million)

Item	1974	1975	1976	1977	1978
1. Current account					
Exports:	139.0	146.3	209.2	230.3	216.0
. Cotton	53.8	63.7	123.9	128.7	88.8
Others	85.2	82.6	85.3	101.6	127.2
Imports:	207.0	284.4	239.4	245.9	279.8
- Government direct purchases	84.4	157.5	120.0	109.0	83.4
- Others	122.6	126.9	119.4	136.9	196.4
Trade balance	- 68.0	-138.1	- 30.2	- 15.6	- 63.8
Services	- 35.0	- 28.2	- 34.6	- 19.7	20.1
- Payments	57.8	62.9	76.6	75.2	92.1
- Receipts	22.8	34.7	42.0	55.5	112.2
Deficit (-) or surplus (+) on current account	-103.0	-166.3	- 64.8	- 35.3	- 43.7
2. Capital account	102.1	32.2	25.7	35.7	32.1
(a) Official capital	98.1	33.5	22.6	11.5	7.2
Drawings	123.3	64.8	50.8	33.3	34.1
Repayments	+ 27.2	31.3	28.2	21.8	26.9
(b) Supplier credit (net)	- 1.6	- 2.9	2.2	- 0.2	- 1.7
(c) Compensation	- 8.6	- 2.4	- 1.4	-	- 1.1
(d) Short-term capital movement (net)	+ 1.3	- 0.4	+ 6.7	+ 24.4	27.7
(e) SDC Short-term assets	+ 6.9	+ 3.5	-	-	-
3. Errors and omissions	- 1.7	+ 0.7	+ 0.9	- 0.4	- 0.5
4. Monetary movements	+ 2.6	+133.4	+ 38.2	- -	12.1

fluctuations due to factors outside the suppliers control, e.g., crop failures due to natural conditions. On the demand side, long-staple cotton is at the expensive end of the cotton market and, as such, is subject to severe competion from substitutes, e.g., synthetic fibres. In additions, a combination of external and internal factors has affected developments in the exports sector, as follows:

(i) Fluctuations over the past five years in world market prices for the major exported commodities. 9/
(ii) The severe floods of July 1978.
(iii) Transport bottlenecks.
(iv) Difficulties in importing fertilizers, spare parts and machinery due to shortage of foreign exchange.

(b) Imports

Imports, in contrast, amounted to almost 140 per cent of exports over the years, but the most recent preliminary results show some decrease in imports by the Government as the result of a deliberate slow-down in development expenditure. This decrease may be attributable to the foreign exchange shortage but it also seems that the recent emphasis on self-sufficiency in food production has had some effect in this respect.

Petroleum imports have been rising and their relative share of the total import bill has increased as a result of the international rise in prices of petroleum and petroleum products. The breakdown of imports by category shows that the largest proportion is for machinery and equipment. This is to be expected as the Sudan has gone a long way in implementing a six-year plan for economic and social development for the period 1977/78-1982/83. It should, however, be mentioned that not all items classified as machinery and equipment are for development purposes. Nevertheless, if all items in imports that are concerned with production and development are considered together, the above statement is probably correct. 10/

(c) Services

Over the years 1974, 1975, 1976 and 1977 net services balances showed substantial deficits as the result of increasing payments on external debt, contractual obligations and development expenditure. The services balance for 1978, however, warrants special consideration as the only instance of a surplus in the services balance for the five years under consideration.

9/ Prices of cotton, for instance, dropped from LSd 137 per bale in 1977 to only LSd 100 per bale in 1978. On the other hand, prices of groundnuts rose sharply from an average of $US 409 per metric ton in 1967/77 to $US 541 per metric ton for fair average quality, and from $US 686 per metric ton in 1976/77 to $US 817 per metric ton in 1977/78 for hand-picked selected. Sesame prices increased from an averate of $US 557 per metric ton in 1976/77 to $US 681 per metric ton in 1977/78. (Bank of Sudan, Annual Report 1978, p. 37).

10/ The figures for 1978 are as follows (in LSd '000s); machinery, electrical (4,746) and non-electrical (26,583); machinery, spare parts (60,304); tractors (4,835); textile machinery and parts (14,589); fertilizers (433); and insecticides (9,633); i.e., a total of LSd 120,825,000 for imports for development or 43 per cent of total imports for that year.

The 1978 surplus can be explained, at least in part, by the fact that transfers by Sudanese nationals working abroad rose from LSd million in 1977 to LSd 44.5 million 1978. In addition, IMF transfers of gold profits to the Sudanese Government amounted to LSd 3 million. However, here again it is to be expected that the services balances of a developing country will be in deficit as it has to import technical know-how and expatriate services to use foreign transport facilities and to make interest payments.

(d) Capital account

As can be seen from Table 8, this account showed a net inflow of capital for the five years under consideration of LSd 102.1 million, LSd 32.2 million, LSd 25.7 million, LSd 35.7 million, and LSd 32.1 million, respectively. This variation can be explained by the net drawings on contracted loans and the position of other items, such as suppliers' credit, compensation and changes in the foreign liabilities of the Bank of Sudan and other commercial banks. The average net inflow of capital amounted to LSd 45.6 million over the period considered. Needless to say, this falls short of what is needed in the case of the Sudan.

(e) Exchange and trade system

There have been a number of major changes in the Sudan's exchange system in the past two years. In brief, these changes in chronological order, were as follows:

On 8 June 1978 the official exchange rate was changed from LSd 1 = $US 2.87156 to LSd 1 = $US 2.5. On the other hand, the tax/subsidy was increased from 5.18 Sudanese piastres per $US 1 to 10 Sudanese piastres per $US 1, so that the effective exchange rate was LSd 1 = $US 2.0. This effective rate applied to all transactions except sales of cotton, for which the rate continued to be LSd 1 = $US 2.5 (i.e., exclusive of tax/subsidy). This was changed, however, on 1 July 1979, when the effective rate was applied to sales of cotton. At the same time special incentive rate of LSd 1 = $US 1.50 was introduced for remittances from non-residents and other sources.

On 16 September 1979 a much simpler exchange-rate system was introduced as part of a general movement towards liberalization of the trade and exchange system. The subsidy/tax system was abolished and an official rate of LSd 1 = $US 2.0 was established. At the same time the special incentive rate of LSd 1 = $US 1.50 was abolished and a parallel rate of LSd 1 = $US 1.25 was established in its place.

Barter trade and nil-value import licensing was terminated as of 16 September 1979. Licences for imports and exports continued to be issued by the Ministry of Cooperation Commerce and Supply and to be validated by the Bank of Sudan for imports through the official market and by commercial banks for imports through the parallel market.

Sudanese nationals as well as non-residents were allowed to open current accounts in foreign currencies with Sudanese banks. Funds in these accounts could be freely used for transfer abroad or sale in the parallel market. As part of the 16 September measures, the exchange control requirement that all persons entering or leaving the Sudan declare all foreign currency in their possession was lifted. All imports were also exempted from both the 5 per cent development tax and the 5 per cent surcharge on imports. In addition, import duties were to be calculated at the official rate of LSd 1 = $US 2.0.

All bilateral payments agreements with other countries have been terminated, with the exception of that with Egypt which was due to expire on 31 December 1980.

6. TRANSNATIONAL BANKS IN THE SUDAN

(a) Coverage

Transnational banks (corporations) are defined here to include those banks (corporations) whose activities involve more than one nation. This study has therefore been concerned mainly with the possible impact of three banks in the Sudan, namely Abu Dhabi National Bank, Citibank and Bank of Credit and Commerce. However, it should also be mentioned that two other banks in the Sudan have some foreign capital participation, namely, Faisal's Islamic Bank (Sudan) and The Sudanese Investment Bank. The impact of those two banks has also been considered, in spite of the fact that they are Sudanese banks incorporated in the Sudan and would not be considered as transnational banks under the above definition. There are also two representative offices (Chase Manhattan Bank and Arab African Bank). Their effect is negligible, as they import no capital and their foreign exchange expenses in the Sudan are relatively small.

The impact of transnational banks on the Sudan's balance of payments will now be considered in the light of the information presented in the preceding sections.

(b) Sudanese policy towards transnational banks

The balance of payments often acts as an important constraint on growth. Most countries have therefore paid special attention to the effect of transnational banks (corporations) on their balance of payments. As in other countries, a number of factors have a greater effect on the balance of payments of the Sudan than transnational banks (corporations). However, concer about the impact of such banks on Sudan's balance of payments is not unfounded, as will be shown subsequently.

As the preceding analysis of the Sudanese economy has shown, the country has vast resources, both agricultural and otherwise. The main bottleneck is the shortage of the foreign exchange needed in order to import machinery and equipment, as well as technical and managerial services, together with the need to expand the existing infrastructure. The impact that developing and utilizing the Sudan's potential and resources would have on the balance of payments is obvious. Transnational banks (and corporations) have worldwide interests as well as the corresponding financial and managerial resources and market outlets. Developing countries have therefore found it of prime importance that their policies towards such banks be consistent with their overall strategies for economic development. A clear

definition of economic and social objectives greatly helps the host government in formulating and implementing such strategies.11/

It is with this last consideration in mind that the Minister of Finance, Planning and National Economy of the Democratic Republic of the Sudan issued his statement of September 1974 on the Government's policy towards the opening of branches of transnational banks and representative offices thereof. This statement pointed out the potential of the Sudan in agriculture, industry and mining and the Government's determination to utilize that potential; the Government's policy and concessions to foreign investors and investments would therefore be diverted towards that end. The statement went on to say that the Government was of the opinion that ordinary banking services were adequately provided by the existing banks in the Sudan but that there was a need for the services of development banks and of banks specializing in financing foreign trade. The Sudan therefore welcomed banks able to cover such areas and to provide such services.

The statement then listed the main conditions under which branches of foreign banks may be licensed, as follows:

1. The applicant bank is required to strictly adhere to and comply with all laws, circulars and instructions relating to banking business in the Sudan, whether already issued or to be issued in future.

2. The applicant bank is also required to transfer to the Sudan a minimum capital of £3 million within a maximum period of six months from the date of opening of the first branch in the Sudan.

3. The applicant bank is not allowed to open any current, saving or time deposit accounts in local currency except for business enterprises dealing with the bank (primarily exporters and importers) and Sudanese nationals working abroad.

4. Foreign banks should provide medium-and long-term credit for the development of the agricultural and industrial sectors.

5. Any other arrangements can be agreed upon with the Minister of Finance, Planning and National Economy.

The minimum capital requirement was later raised to £10 million, but that figure was negotiable if, in the view of the competent authorities, the applicant satisfied other requirements considered to be of greater importance.

As a further prerequisite, the applicant bank has to prove to the Minister its competence and experience in financing development projects and in providing long- and medium-term credit.

In line with this policy, the three foreign banks already mentioned have been licensed and are already operating in the Sudan.

11/ "Strengthening the negotiating capacity of developing countries" (E/C.10/50).

(c) Structure and activities of transnational banks

(i) Bank of Credit and Commerce

Date of establishment

The bank first came to the Sudan in September 1976.

Structure

This bank is a branch of the Holding Company of Bank of Credit and Commerce International (Luxemburg) SA. The Khartoum and Port Sudan Branches constitute the Sudan operations and are linked to the African Regional Office in Cairo.

Capital

The capital brought to the Sudan is $US 5 million.

Activities

The main banking activities of the two branches are said to be financing of local commercial activities and import and export transactions.

Intermediation

In response to a question about their role in intermediation of foreign investments and investors the bank replied as follows: "A good number of SNWA accounts are kept in our books fed periodically by good inward transfers. Most of the account holders are very well connected with out branches in the Arab countries. Besides we managed to open accounts in the name of foreign correspondents i.e. money changers - to meet their drawings for SNWa remittances".

(ii) Citibank

Date of establishment

Citibank Khartoum started operations on 3 December 1978.

Structure

Citibank Khartoum is a branch of Citibank New York, which has 30 branches throughout the Middle East and North Africa, and 1,200 offices in a total of 94 countries around the world.

Capital

The capital of Citibank Khartoum is $US 5 million.

Activities

Citibank Khartoum offers normal banking services including export, import, local currency financing, transfers and local currency deposits.

Facilities provided by Head Office

Citibank Khartoum maintains foreign currency accounts with its head office in New York and with Citibank London for foreign currency clearing purposes.

Intermediation

Citibank has participated in several syndicated loans to the Government of the Sudan and the private sector, e.g., for the financing of the Government's share in the capital of Kenana Sugar Company, the purchase of communications satellites, and of British Leyland Landrovers for the Mechanical Transport Department, Sudan Development Corporation, for Red Sea Spinning (Port Sudan), and for the generators installed at Port Sudan.

Branches

At present there is only one branch in the Sudan-Citibank Khartoum. Another branch at Port Sudan is contemplated.

(iii) Abu Dhabi National Bank

Date of Establishment

The bank commenced business in the Sudan in October 1975.

Structure

The Sudan Regional Office comprises two branches of Abu Dhabi National Bank of the United Arab Emirates - Khartoum branch and Port Sudan branch. Facilities to clients by the Regional Office above a certain limit have to be referred to Head Office for final approval.

Capital

The capital brought to the Sudan was $US 5 million.

Activities

The bank carried on normal banking activities.

(iv) Faisal's Islamic Bank (Sudan)

Date of establishment

The bank was incorporated as a Sudanese Public Company on 18 August 1977 under the Companies Act 1925, with headquarters in Khartoum. The bank was officially opened on 10 May 1978.

Capital

The authorized capital is LSd 10 million, divided as follows: 40% of the shares were allotted to Sudanese nationals, a further 40% to Nationals of Saudi Arabia, and 20% to Muslims from other countries. In other words the foreign capital brought to the Sudan is 60 per cent of the total, i.e., LSd 6.0 million.

Activities

The bank's activities include participation as well as direct investment. For this latter purpose, the bank has established the Islamic Company for Trade and Commerce. In addition, the bank offers all the usual banking services, which can be carried out in such a way that no interest is involved. The basic rule of the bank, in fact, is that interest charges are completely eliminated from all its activities, i.e., no predetermined charge is fixed in advance as a percentage of the amount of money lent or borrowed by the bank.

(v) Sudanese Investment Bank

This is a Sudanese bank incorporated in the Sudan as a public company under the Companies Act 1925. It commenced business on 3 January 1979. Its Board of Directors includes some 19 members representing shareholders and both local and foreign participants. At the present time the Chairman is also the Managing Director, and is assisted by a Deputy General Manager, representing foreign interests in the bank. There is also a Deputy Chairman for foreign affairs who also represents foreign shareholders.

Capital

The authorized capital of the Bank is LSd 7,500,000 and is now fully paid up. It is divided into shares of LSd 150 each. Shares have been allotted as follows:

Sudanese shareholders	(per cent)
Publicly held	50
Bank of Sudan	5
Sudan Commercial Bank	5
Dr. Khalid Farah	5
Total	65

Foreign shareholders	(per cent)
Société Générale (Paris)	20
Marinco SA (Luxemburg)	10
Alimenta SA (Geneva)	5
Total:	35

Foreign participation therefore amounts to LSd 2,625,00.

Activities

The main activities of the Bank are stated to be, in addition to the normal commercial banking activities, to:

- Identify, develop, promote and encourage public and private investments through providing finance or other forms of assistance.
- Assist in the modernization and expansion of existing enterprises.
- Promote the participation of local and foreign capital in such enterprises.
- Co-operate with public and private institutions in broadening the base of security ownership and in the creation of a capital market.
- Participate in financing foreign trade.

7. IMPACT OF TRANSNATIONAL BANKS ON THE BALANCE OF PAYMENTS

The impact of such banks on the balance of payments may be either direct or indirect.

(a) Direct impact

(i) Capital inflow

The direct impact includes the capital brought to the Sudan by these banks. As might have been expected, this has had a positive effect on the balance of payments. However, the total inflow of capital brought into the Sudan in this way is not very great compared to the total capital inflow into the country. Bank of Credit and Commerce, which commenced business in the Sudan in September 1976, brought in a capital of only $US 5 million. In the same year, i.e., 1976, Abu Dhabi National Bank brought to the Sudan another $US 5 million as capital. If it is assumed that their capital was all brought into the Sudan during 1976, this should have been registered as a positive inflow of $US 10 million. Lack of consistent statistics and clear segregation of various transactions do not permit the tracing back of this amount in the balance of payments for that year. Nevertheless, even if it is assumed that this amount was recorded for 1976, it still represents only a fraction of the total capital inflow to the Sudan. Citibank, in turn, brought to the Sudan $US 5 million by way of capital in 1979. The same comment applies here. As regards capital inflow, therefore, the impact of transnational banks is positive but comparatively small. Moreover, as these banks start remitting profits made over the years this will reverse the initial favourable effect on the balance of payments. Again, however, amounts are expected to be small.

(ii) Facilities from abroad

Another possible direct impact of these banks on the balance of payments is represented by the facilities made available to them by correspondents abroad. The foreign position of the five banks is shown in Table 9.

Table 9. Foreign position as of February 1980
(LSd '000s)

Bank	Assets	Liabilities
Bank for Commerce and Credit	925	173
Abu Dhabi National Bank	5 969	1 940
Citibank	-	-
Faisal's Islamic Bank	9 532	-
Sudanese Investment Bank	4 954	-

Table 9 shows that facilities amounting to LSd 21,380,000 were made available to these banks from their correspondents but that only LSd 2,113,000 has been utilized. The impact of these banks on the balance of payments as of February 1980 would have been greater by more than LSd 19 million if all the facilities had been utilized by the banks.

However, if we consider the total facilities available to all the commercial banks in the Sudan which amount to LSd 117.9 million, this figure of LSd 21,380,000 means that 17.9 per cent of these facilities are in foreign exchange. Here the impact will be positive, provided that these facilities are utilized, and may be expected to increase as these banks, through their head offices, increase the facilities made available to them by foreign correspondents. A relevant consideration here is that these banks, because of the nature of their interests and connexions, might compete more aggressively for a share of the facilities already available to banks in the Sudan. While the possibility cannot be ruled out completely, however, no case of any decrease in facilities for existing Sudanese banks has been reported. There is, in addition, no evidence that any of these banks has been a correspondent of a Sudanese bank, so that no decrease in correspondence facilities for Sudanese banks has so far been reported.

(iii) SNNA accounts

After the exchange and trade measures of 16 September 1979, already described, it was expected that Sudanese nationals working abroad would be encouraged to remit their savings in foreign exchange to the Sudan. Banks were therefore urged to stage a compaign for that purpose and were required to file with the Bank of Sudan weekly

returns of accounts opened with them in foreign currencies whether through the official or the parallel market. Examination of these returns shows that, up to the week of 17 February 1980 Abu Dhabi National Bank had opened SNWA foreign currency accounts equivalent to a total of LSd 2,868,000. Accounts to the value of the equivalent of LSd 7,613,000 were also opened for residents by the bank.12/ Bank of Commerce and Credit opened SNWA accounts to the value of LSd 151,300 in foreign exchange, and also opened resident accounts denominated in foreign currencies to the value of LSd 7,146,000. Citibank's SNWA accounts amounted to only LSd 25,000, while its resident accounts were LSd 4,345,000. Thus here the effect on the balance of payments is also positive and relatively substantial.

Account must also be taken, however, of the possibility that Sudanese nationals working abroad might bring their savings to the Sudan in any case, whether these transnational banks existed or not, by direct remittance to the Sudan, especially when it is remembered that there are branches of El Nilein Bank in Abu Dhabi and an office of the same bank at the Sudanese Embassy in Jeddah. The actual impact may therefore be much less than the figures quoted.

(b) Indirect impact

The indirect impact of transnational banks can be much greater than the direct impact. The problem here is that it cannot be quantified. For developing countries in general, owing to the absence of consistent statistics and the diversity of the reporting and recording systems and techniques, quantitative analysis becomes at best cumbersome and in certain instances virtually impossible. Comparability is not possible or easy because of differences in the techniques used in compilation, reporting and coverage. A further serious problem in this respect is the lack of adequate and reliable information. It will be both useful and relevant therefore, to dwell somewhat on the indirect impact of transnational banks on the Sudan's balance of payments. It was for this purpose that an analysis of the Sudanese economy was presented at the beginning of this report. The indirect effects are summarized below.

(i) Financing of international trade and local industries

Exports

Financing of exports has never been a problem as this function has been adequately performed by the existing Sudanese banks. The Bank of Sudan was also available to support the export financing abilities of the commercial banks. This type of financing is attractive for obvious reasons, since it constitutes a type of self-liquidating loan that will at the same time earn foreign exchange for the financing bank. A bank with exporters for clients will therefore be in a better position from a foreign exchange point.13/

12/ To absorb foreign exchange in the hands of Sudanese nationals and residents, the measures of 16 September 1979 permitted the opening of accounts denominated in foreign currencies by residents of the Sudanese

13/ Proceeds from exports through the parallel market are left in that market and banks can therefore use these proceeds by buying them from their customers at the parallel rate of LSd 1 = $US1.25; proceeds from exports through the official market, ile., cotton, gum arabic and oil seeds, which are the main export items of the country, are apportioned at the rate of 25% for the bank and 75% for the Bank of Sudan.

Imports

Financing of imports, on the other hand, may have either an adverse or a favourable impact on the balance of payments. To the extent that imports are financed out of the bank's own resources or facilities, this will help the balance of payments. If, however, the imports are financed from funds already coming into the Sudan, this will adversely affect the balance of payments.

Local industries

Financing of local industries may have favourable effects on the balance of payments by encouraging import substitution industries or expanding the exporting ability of the economy.

Short-term advances by the transnational banks, broken down into exports, imports and local industries, are given in Table 10.

Table 10. Short-term advances for financing exports, imports and local industries as at February 1980 (Lsd '000s)

Bank	Exports	Imports	Local industries	Others[a/]	Total short-term
Bank of Commerce and Credit	6,297	6,522	3,059	-	17,878
Abu Dhabi National Bank	1,189	1,791	9,324	993	13,297
Citibank	290	-	-	3,489	3,779
Faisal's Islamic Bank	9,044	6,184	580	2,507	18,315
Sudanese Investment Bank	3,010	3,322	1,943	4,229	12,504

(ii) Long- and medium-term financing

This type of financing is what is really sought as indicated in the statement by the Minister of Finance, Planning and National Economy previously mentioned. Currently, transnational banks in the Sudan have not been as active in this field as they should be. Up to February 1980 only three banks had advanced any long-term credit, namely Bank for Credit and Commerce (LSd87,000), Abu Dhabi National Bank (LSd194,000) and Faisal's Islamic Bank (LSd903,000).

a/ No breakdown is available for the item "Others". If, however, as may be assumed, these represented personal or consumption loans, then the impact on the balance of payments will be adverse as the bulk will go for imports of consumer goods.

(iii) External intermediation for development financing

There is no indication as yet that transnational banks in the Sudan have been active in this field. This is where the services of transnational banks are most needed and where their favourable impact will be strongly felt. Transnational banks (corporations) are seen as vehicles for the inflow both of foreign exchange and of foreign technology and managerial services. This is where they can really help if they choose.

The vast agricultural, industrial and mineral potential of the Sudan as discussed earlier, has been only partially utilized. Shortage of foreign exchange is a real problem but more important may be inadequate technology and managerial services. Transnational banks, with their international connections, human resources and contacts with specialized institutions worldwide, can be of great assistance to developing countries. Assisting in the proper utilization and development of the Sudanese Economy will have a direct positive impact on the balance of payments of the Sudan.

The Sudan therefore needs banks that specialize in agricultural and industrial credit, that will not only provide the foreign component of the financial needs of projects in the Sudan, -important as that may be- but will also assist in importing technology and managerial services. The existing transnational banks in the Sudan do not seem to be undertaking such activities.

8. CONCLUSIONS

The conclusions of this study may be briefly summarized as follows:

(a) Direct impact

Transnational banks have a direct impact on the balance of payments of the Sudan, as follows:

(i) The impact in terms of the capital brought by these banks into the Sudan, which amounted to LS. 16,125,000,14/ is positive but not very substantial relative to the total capital inflow. Transfers of profits by these banks will have a negative effect but are expected to be small.

(ii) The impact in terms of the opening of S.F.I accounts is positive and can be substantial, but this has to be qualified, as previously discussed.

(iii) The impact in terms of foreign facilities is positive and can be substantial if advantage is taken of the credit-worthiness and connexions of the parent head offices of these banks, provided that all facilities are utilized fully and are newly obtained.

14/ Including foreign participation in Faisal's Islamic Bank and the Sudanese Investment Bank.

(b) Indirect impact

The indirect impact although impossible to quantify, would appear to be as follows:

(i) financing of exports: the impact is not expected to be great as this area is already adequately covered by the Sudanese banks. If new exports are financed the effect will be positive.

(ii) financing of imports: to the extent that the transnational banks provide foreign exchange for financing imports from their own resources the impact will be positive. If, however, additional imports are financed, this will exert greater pressure on the balance of payments and will have a negative effect.

(iii) financing of development and of local industries: the impact is expected to be positive as this will result in increased exports and more import substitution industries. Transnational banks have not been sufficiently active in this area.

(c) General conclusions

Experience with transnational banks in the Sudan is limited and it may be too early to pass a final judgement on their impact on the Sudanese balance of payments. The number of these banks is still small and more banks have just been licensed. Approval should be given, however, only to specialized banks with experience that will enable them to assist in the development of the Sudan. This implies not only foreign exchange financing but also drawing on the experience and worldwide interests of their head offices to bring to the Sudan modern technology, enterpreneurship and technical knowhow.

BIBLIOGRAPHY

"Transnational corporations in world development: a re-examination" (E/C.10/38).

"Multinational corporations in world development (ST/ECA/190).

The Six-year Plan of Economic and Social Development 1977/78-1982/83, Khartoum, Ministry of National Planning, 1977.